

# INTERNAL AUDIT REPORT

## AUDIT FOLLOW-UP TO MANAGEMENT ACTION PLANS

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**DATE:** November 15, 1996

**TO:** Stockton City Council

**FROM:** F. Michael Taylor, City Auditor

We have completed our annual follow-up of management's action plans to improve conditions reported in internal audits. Our follow-up was conducted in accordance with Generally Accepted Government Auditing Standards.

### BACKGROUND

As each internal audit assignment is completed, Auditing sends a memo of findings to auditee management. Management responds to the findings with planned actions for improvements and target dates. After Auditing receives the action plans, they are incorporated into our report to management. A summary report is provided to the City Council and is discussed with the Audit Committee.

### PURPOSE

Follow-up is done to determine whether prompt and appropriate corrective action has been taken on known findings.

### SCOPE

All planned actions with a target implementation date of June 30, 1996 or earlier have been included in our follow-up.

### METHODOLOGY

On a semiannual basis, auditing sends a written inquiry to management about the status of planned actions that have passed their target date during the past six months. For planned actions that have not been implemented, a new plan and target date are requested. Auditing verifies changes for planned actions represented by management as implemented.

### RESULTS

A total of 36 findings have been reported from audit activity to date. Of those 7 were verified as having been implemented during our semiannual follow-up as of December 31, 1995. Another 5 have implementation dates after June 30, 1996. The remaining 24 findings were reviewed during this follow-up. Auditing verified that management action plans satisfactorily resolved 13 audit findings. For the remaining 11 audit findings, progress has been made but additional work is needed before Auditing can verify that management action has resulted in the planned improvements. Attached to this report are

forms that document the condition, action plan and status of each Management Action Plan that had not been fully implemented.

A number of improvements have occurred as a result of action plans that have been completed. Among the improvements are the following:

- ! A revised travel policy has been issued and took effect September 16, 1996.
- ! The Accounting Division of the Finance Department has developed and implemented written internal procedures for processing travel transactions.
- ! In connection with the revised travel policy, new forms to document travel transactions have been developed. Use of the new forms began on September 16, 1996. In addition, efforts are being taken by Public Works staff to automate the form which could be implemented if approved by the Director of Finance.
- ! Accounting has developed a tracking mechanism to be certain that employees who receive travel advances for City travel account for those funds in a timely manner.
- ! Accountability for change funds and petty cash funds has been established. Physical counts, subsidiary records maintained by the Treasury Division and account balances in the general ledger all agree. Postage has been reclassified from cash to a prepaid asset.
- ! A safe has been installed at a remote collection point to increase security of cash receipts prior to deposit.
- ! Finance now has security services for the lobby area. Security is also available to escort City employees to Finance when bringing in cash receipts.
- ! Six checking accounts of the City have been closed. Some of these accounts were inactive and not needed. Others had activity that can be handled with the City's main checking account. Finance Department action to close these accounts has improved internal controls over the City's most liquid assets.
- ! Written procedures have been developed and implemented for the reconciliation of the City's checking accounts. Those procedures include improvements to internal controls.
- ! Minor reconciling differences that have been carried forward from prior months have been resolved.
- ! Bank statements for City checking accounts are now mailed directly to the Accounting Division where they are reconciled.
- ! Accounting has researched items on the outstanding check list and corrected some minor errors which were found.
- ! Improvements have been made to the City's escheat process for City issued checks that were never cashed by the payee.
- ! Accountability for City checks has been improved by tightening procedures for

maintaining void checks.

- ! Returned checks are maintained in a secure location while awaiting collection.
- ! Manual check stock, which had been in a physically secure location, is now stored in a manner that further strengthens internal controls.

We commend management and staff of the Finance Department for the action they have taken so far to improve controls and procedures in these areas.

*Original signed by:*

F. Michael Taylor  
City Auditor

Attachments

c: Dwane Milnes, City Manager  
R. Thomas Harris, City Attorney  
Katherine Gong Meissner, City Clerk  
L. Patrick Samsell, Director of Finance  
Deloitte & Touche LLP